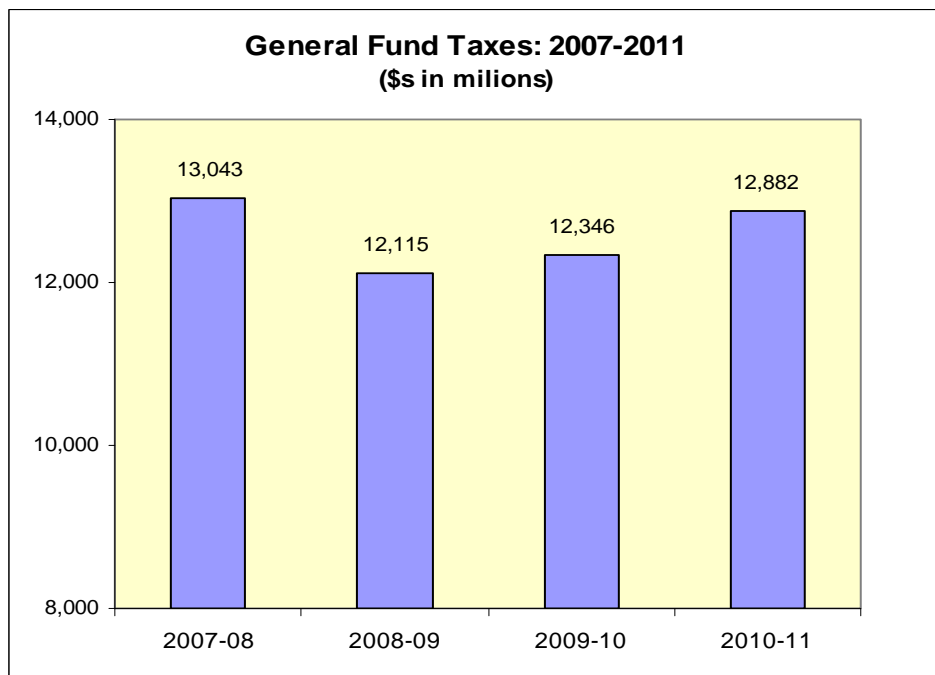




Revenue Uppers Help Close Budget Shortfall

According to an [analysis by the Legislative Fiscal Bureau](#), the biennial budget bill makes changes that generate a little over \$2 billion in revenue. That's a very substantial amount, and it will almost certainly be an item of debate in the 2010 elections, but it represents less than a third of the budget deficit.

Despite the tax increases that were adopted, General Fund taxes are expected to be lower in each year of the biennium than in 2007-08. The following bar graph illustrates the total of General Fund taxes from 2007-08 through 2010-11, including the tax changes made in both the budget adjustment bill (Act 2) and the biennial budget bill (Act 28). As it shows, total General Fund taxes in 2010-11 will be below the level in 2007-08 by \$161 million (1.2 percent).

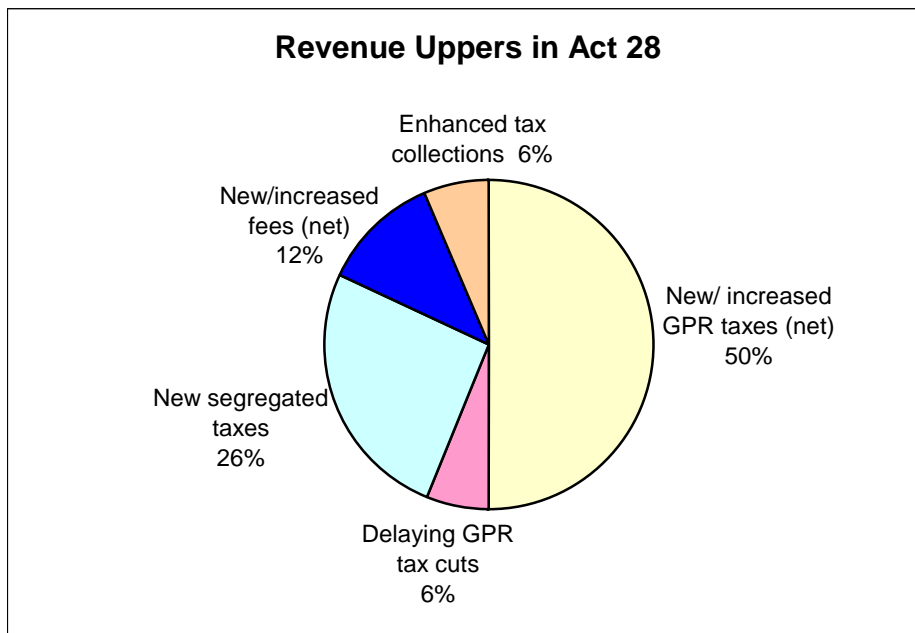


The pie chart on the next page divides the \$2.05 billion in increased revenue in Act 28 into the following five general categories:

- *Increases in General Fund taxes* – Half of the new revenue (\$1.026 billion) is from increased General Fund taxes. Much of that is from the elimination of various corporate and individual income tax breaks. The table on the following page itemizes most of the General Fund tax increases. For the most part, these increases are on high income taxpayers or corporations, but one notable exception is the 75-cent increase in cigarette taxes.
- *Segregated tax increases* – The next largest category of added revenue in Act 28, \$526 million (26 percent), is from segregated tax increases, such as the new assessment on

hospitals and ambulatory surgical centers. Most of the hospital assessment funding was from the budget adjustment bill enacted in February 2009 and is not included in the Act 28 total, but the biennial budget added more revenue from that source. While that assessment counts as a tax increase, it was supported by the Wisconsin Hospitals Association because most of the segregated revenue is used to increase Medicaid rates for hospitals and to capture federal matching funds for Medicaid, to the net benefit of nearly all hospitals. Another one of the segregated tax increases is the new Police and Fire Protection Fee, which generates \$107.6 million for Shared Revenue payments for municipalities and counties (thereby offsetting a portion of the GPR cut from Shared Revenue). That counts as a new segregated tax because a similar fee that it replaces had been allowed to lapse.

- *Fee increases* – The fee increases total \$242 million in 2009-11, or 12 percent of the increased revenue. The largest of those is an increase in certain fees imposed on securities transactions, which is expected to generate \$22.2 million per year.
- *Delayed tax cuts* – The bill generates \$127 million (6 percent of the new revenue) by temporarily delaying a number of tax breaks that were approved earlier and were being gradually phased in – including the deduction for health insurance premiums, the deduction for child and dependent care expenses, and several relatively small tax credits.
- *Enhanced tax collection* – The budget bill contains several measures to enhance tax collections, which are expected to generate an additional \$130 million over the biennium, including \$70 million from increasing Department of Revenue staff.



The table on the next page itemizes most of the sources of General Fund revenue from new or increased taxes and from enhanced collection of current taxes. It does not include the segregated fund increases (such as the hospital assessment) or the \$127 million generated by temporarily delaying a number of tax breaks enacted in previous years.

Major General Fund Tax Increases and Enhanced Revenue Collection in the Budget Repair Bill and Biennial Budget Bill

Enacted in the FY 2009 BUDGET REPAIR BILL (Act 2)	Fiscal years '09, '10, & '11 (\$s in millions)
Combined reporting – Requires corporations and their subsidiaries to file a single tax return, thereby limiting the ability of multi-state corporations to dodge taxes through the creative use of subsidiaries.	\$215.0
Streamlined sales tax – Adopts a set of rules used in many states for what types of sales are subject to the sales tax. Expected to increase revenue slightly by encouraging more businesses to collect the tax on interstate sales.	4.7
Sales tax on customized computer software – Fills the sales tax loophole created by the <i>Menasha</i> decision.	66.0
Sales tax on digital products	10.9
Enacted in the 2009-11 BIENNIAL BUDGET BILL (Act 28)	FY '10 & '11
Cigarette and Tobacco Tax Increase – Increases the tax on cigarettes by \$0.75 per pack and comparable amounts on other tobacco products.	337.2
Very High Earner Tax Bracket – Creates a fifth individual income tax bracket with a taxation rate of 7.75 percent (1 percentage point above the top bracket now). This bracket applies to taxable income exceeding \$300,000 for married joint filers, \$225,000 for single individuals and heads of households.	287.3
Capital Gains Exclusion – Reduces from 60% to 30% the amount of capital gains that may be excluded from taxable income.	242.5
Qualified Production Activities Deduction – Decouples from the fed. Internal Revenue Code provision that provides a business tax deduction for qualified production activities (regardless of whether they are in WI).	54.3
Pass-Through Entity Withholding – Requires pass-through entities to make quarterly, rather than annual, estimated payments of withholding tax for nonresident members, to be consistent with the current treatment of resident members.	38.5
Throwback Sales – Requires the income from throwback sales to be treated equal to the income from normal sales for corporate income tax computation purposes. (Throwback sales are sales shipped out of WI to states without income tax jurisdiction over the company or sales shipped out of state to the fed. government.)	80.5
Affiliated Entities Sales Tax Treatment – Specifies that if an affiliated entity is treated as part of the parent company for income tax purposes, it will receive the same treatment for the purpose of sales tax liability.	40.8
Economic Nexus Standard for Internet Businesses – Amends the statutory definition of a retailer engaged in business in this state to clearly include an Internet retailer that has an affiliate physically located in Wisconsin that makes similar sales.	3.0
Retailers Discount – Sets a \$1,000 limit on the amount of sales tax revenue that can essentially be kept by retailers for their admin. costs.	10.7
Enhanced Enforcement of Tax Laws – Increases DOR staffing to improve tax collections.	70.0